

MONTEREY COUNTY ASSESSMENT PRACTICES SURVEY AND ASSESSOR'S RESPONSE

MAY 1997

CALIFORNIA STATE BOARD OF EQUALIZATION

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FOREWORD

The county assessor is responsible for the assessment of all taxable property within the county, except state-assessed property. The assessor's responsibilities include such things as (1) discovering and taking inventory of all property within the county; (2) determining a property's eligibility for a full or partial exemption from assessment (3) determining the proper assessee who is usually but not always the owner, (4) determining the location for assessment purposes of the property, and (5) determining the taxable value of the property in accordance with California property tax law.

Determining taxable value is usually the most difficult and subjective of the assessor's duties. In addition to the inherently subjective nature of the appraisal process, the assessor also has to determine whether the taxable value is to be based on current fair market value or on a value base set earlier. When there is construction activity on a property, the assessor has to determine whether the construction is to be assessed or whether it is excluded from assessment under the law. When there is an ownership transaction, the assessor has to determine whether the law requires a reassessment of the property or whether the property must continue to be assessed according to the existing value base.

The factors discussed above, as well as others not mentioned here, contribute to making local property tax assessment a difficult tax program to administer. It is also a very important program since the property tax is one of the most important sources of revenue for local governments and public schools. For property owners it is a major annual tax burden, and, since it is normally paid in one or two large installments rather than many small increments, it tends to be more visible than most other taxes. Accordingly, proper administration of the property tax assessment program is vitally important both to the public agencies that rely on the tax and to the people who have to pay the tax.

Although the primary responsibility for local property tax assessment is a function of county government, the State Board of Equalization has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties, performed by the Board's County Property Tax Division, is to conduct periodic surveys of local assessment practices and report the findings and recommendations that result from the survey. The surveys may include a sampling of assessments of the local assessment roll, and they must include research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the assessment of taxable property, compliance with state law and regulations, and other required duties.

The assessor was provided a draft of this report and given an opportunity to file a written response to the recommendations and other findings contained in the report. This report, together with the county assessor's response and the Board's comments regarding the response, constitute the final survey report which is distributed to the Governor, the Attorney General, both houses of the State Legislature; and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey report of the Monterey County Assessor's Office was completed by County Property Tax Division staff during March of 1996. This report does not reflect changes implemented by the assessor after the field work was completed.

The Honorable Bruce A. Reeves, the Monterey County Assessor/Recorder/Clerk, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

William Jackson, Chief
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May 1997

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I. INTRODUCTION, SUMMARY, RECOMMENDATIONS, AND SUGGESTIONS

A. INTRODUCTION

Section 15640 of the Government Code, in part, mandates that the State Board of Equalization shall:

" . . . make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her. The survey shall include a sampling of assessments from the local assessment rolls sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county. . . ."

It is apparent from this language that the Legislature envisioned the Board's appraisal sampling and its office survey to be parts of a single, connected process, i.e., the evaluation of how well the county assessor is carrying out his or her sworn duty to properly assess all taxable property on the local tax roll. This evaluation was to be based both on actual field appraisals of sampled roll items and in-office interviews and research.

Section 15640 also reads that:

"The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process."

This report is the culmination of a review of the Monterey County Assessor/Recorder/Clerk's¹ operation that began with the Board's County Property Tax Division's (CPTD) appraisals of properties selected on the bases of assessment category and assessed value. The survey team analyzes the results of the assessment sampling, then examines current practices and procedures in key areas to see whether the most significant problems identified in the assessment sampling still exist in the assessor's operation. The survey primarily emphasizes issues that involve revenue generation or statutory mandate. Finally, the survey team offers positive courses of action, presented here as recommendations and suggestions, to help the assessor resolve problems identified in his or her program.

¹ For purpose of this survey report, we refer to Mr. Bruce Reeves as the Assessor and to his operations as the assessor's office.

1. Overview of the Monterey County Assessment Roll

The CPTD's field appraisal team sampled the 1993-94 Monterey County assessment roll, which contained 119,061 assessments with an enrolled taxable value of \$18,676,970,009. (For a detailed explanation of CPTD's assessment sampling program, see the Appendix at the end of this report). Sampling data indicated the composition of the roll by property type as follows:

<u>Property Type</u>	<u>No. of Assessments In County</u>	<u>Enrolled Value</u>
Residential	78,115	\$12,541,929,621
Rural	9,900	1,541,597,467
Commercial/Industrial	13,658	4,224,801,440
Miscellaneous	<u>17,388</u>	<u>368,641,481</u>
Totals	119,061	\$18,676,970,009

Monterey County is Certified as Eligible

Revenue and Taxation Code Section 75.60 provides that counties certified as "eligible" by the Board may retain, prior to the allocation of property tax revenues to other local jurisdictions, an amount associated with the costs of administering supplemental assessments. In order for a county to qualify as eligible, it must achieve an average assessment level of at least 95 percent of the level required by statute, as determined by the Board through its assessment sampling program.

As a result of our sampling, the Board found that Monterey County's 1993 assessed value of \$18,676,970,009 was 98.2 percent of the statutorily required \$19,025,337,150.

Based upon these results, the Board certified Monterey County as "eligible" for purposes of section 75.60.

2. Budget and Workload

Since the 1990-91 roll year, the total net roll in Monterey County (all state and locally assessed value minus all exemptions) has increased as follows:

<u>Year</u>	<u>Total Value</u>	<u>Increase</u>	<u>Statewide Increase</u>
1990-91	\$16,315,360,519		
1991-92	\$17,966,222,919	10.12%	8.06%
1992-93	\$18,905,392,544	5.23%	5.18%
1993-94	\$19,364,329,167	2.43%	2.80%
1994-95	\$19,968,417,233	3.12%	.66%

For fiscal year 1995-96 year, the Monterey County Assessor prepared an assessment roll containing 130,768 assessments on an approved budget of \$2,919,149, which is approximately the same as the last two year's budgets. This budget funded 49 full time positions (compared to 51 positions the year before). There appears to be some stability reached in Monterey County in the last few years as to the number of personnel and amount of funds needed to perform the task of completing a roll cycle.

The real property workload for the last year in Monterey County included about 7,500 sales and other transfers and 2,000 reassessments resulting from new construction (discovered through building permits or other means). The assessor's office processed more than 200 properties affected by misfortune or calamity. In addition, the staff processed slightly more than 250 property splits along with 900 new subdivision lots. The real property section also performed many other tasks including assessment appeals and reviews of decline in value.

The professional staff budgeted to handle the real property consists of one Supervising Appraiser, five Appraiser III's; nine Appraiser II's, and three clerical support members. All of the real property appraisers and support staff are located in Salinas with the exception of one Appraiser III; that position is in Monterey. It is convenient for this position to be located away from Salinas due to the large concentration of possessory interest properties in the Monterey area.

The professional staff budgeted to handle the business property consist of seven auditor-appraisers including the unit's supervisor.

For the 1994-95 assessment year, the Monterey County assessment roll included 19,150 business property accounts or 2,736 roll units per auditor-appraiser. The staff must audit 136 mandatory accounts each year or 19 per auditor appraisers. Also, the staff processed 9,483 property statements or 1,355 per auditor appraisers in 1994/95.

3. Appraisal Staff Training

Revenue and Taxation Code Sections 670 and 671 contain specific educational and training requirements that must be met and maintained for a person to perform the duties of a county property appraiser for property tax purposes. The Board of Equalization is charged with ensuring that these requirements are met.

The Monterey County Assessor is well aware of this requirement of law and makes a diligent effort to ensure that all appraisal staff are provided with the necessary hours of training each year in order to retain appraisal certification. Monies are provided in the assessor's budget to reimburse staff for classes and workshops they attend. Generally, any class requested by staff that is deemed job-related will be approved by the assessor for attendance and reimbursement.

Section 671 arrays the requirements for a course of study for Advanced Appraiser Certification by the State Board of Equalization. Once this level of certification is attained, the code provides that 12 hours of training in each one-year period will be required to retain the certification instead of the standard 24 hours. The assessor encourages his staff to attain the Advanced Appraiser Certification.

The appraisal training program in the Monterey County Assessor's Office is very effective. The assistant assessor maintains individual training records on all appraisal staff to track the training hours. We commend the assessor for his compliance with the requirements of Section 670 and 671 and for helping his staff to maintain appraisal knowledge and professionalism. We make no recommendations or suggestions for the appraisal staff training program.

B. SUMMARY

During the research for this project, we found that the major aspects of the Monterey County Assessor's assessment program function very well. So do many of the more specific programs.

We particularly commend the assessor and his staff for the proactive and effective manner in which they provided assessment relief to the victims of damage from the 1995 floods. The assessor and his staff made a special effort to discover damaged property and to make the property owners aware of the relief that was available to them.

The assessor also developed standard cost-to-cure formula that provided uniform treatment to those who suffered a similar degree of damage. The staff also provided good documentation as to the action taken. The assessor also has an excellent program for the assessment of items of new construction. The permit process works particularly well.

Programs for specialized properties and procedures such as those affected by legal entity ownership changes and possessory interests also function very well. The assessor's program for assessing business personal property gets high marks from our reviewers. The program for receiving, reviewing, and safeguarding property statements is good. Coordination between the business property section and the real property section is also good. So is the coordination within units of the business property section.

Despite the overall effectiveness of the assessment programs, we have concerns about certain procedures. Beginning with the 1993-94 assessment roll, the assessor withheld the

annual inflation factor from all properties that changed ownership or were newly constructed after June 30, 1989.

We understand the assessor's need for an expedient and short-term measure that will reflect non-increasing values on the most recent assessment rolls. However, as a result of this action, the assessor may be in conflict with recent revisions to Section 51(e) of the Revenue and Taxation Code. That section now explicitly requires an assessor to annually appraise properties affected by declines in value at the lower of current market value or factored base-year value. In the report, we suggest a strategy for estimating the current value of a large number of properties while also maintaining and considering the factored base-year value as required.

We comment in the report and make recommendations concerning the failure to apply penalties for non-responses to the change in ownership form. We also express concern about the assessor's policy overriding the computer program to avoid small supplemental assessments and improper classification of leasehold improvements.

C. RECOMMENDATIONS AND SUGGESTIONS

Here is a summary of the formal recommendations and suggestions contained in this report, arrayed in the order presented in this report, with parenthetical references to their page locations.

RECOMMENDATIONS

- RECOMMENDATION 1: Apply the penalty for nonresponse by taxpayers to the change in ownership statement. (Page 8)
- RECOMMENDATION 2: Develop and implement a written policy for making cash equivalent adjustments. (Page 8)
- RECOMMENDATION 3: Allow the Megabyte computer system to forward all supplemental tax bills to the county auditor's office. (Page 13)
- RECOMMENDATION 4: Properly classify tenant improvements on unsecured accounts. (Page 14)
- RECOMMENDATION 5: Annually assess all properties at the lower of current market value or factored base year value. (Page 15)
- RECOMMENDATION 6: Assess all possessory interests at the fairgrounds. (Page 17)
- RECOMMENDATION 7: Assess fixed irrigation pumps, fixed booster pumps, and in-ground irrigation improvements as improvements. (Page 20)

- RECOMMENDATION 8: Revise mineral rights assessments by: (1) applying Property Tax Rule 469 to all mineral rights assessments; and (2) including essential information in the mineral property appraisal files. (Page 23)
- RECOMMENDATION 9: Ensure that property statements are closely screened for proper signatures. Reject those that do not meet regulatory requirements. (Page 27)
- RECOMMENDATION 10: When valuing machinery and equipment, use replacement cost factors that relate to the specific property being appraised. (Page 27)

SUGGESTIONS

- SUGGESTION 1: Review the bond tracking program to ensure that all properties with bonds are properly appraised. (Page 9)
- SUGGESTION 2: Improve the program for handling building permits by: (1) encouraging all issuing agencies to assign permit numbers when the building permits are issued; (2) requesting that the various issuing agencies include the assessor's parcel number (APN) on all building permits; and (3) asking the City of Monterey permit issuing agency to change the parameters of their computer report to include all building permits. (Page 11)
- SUGGESTION 3: Document the source of unit costs on appraisal records. (Page 12)
- SUGGESTION 4: Use the direct method of capitalizing all relevant fees paid by interim users of the fairgrounds. (Page 18)
- SUGGESTION 5: (1) Revise dry grazing land valuation procedures as outlined in Assessors' Handbook Section 521; and (2) revise the production, income, and expense questionnaire mailed to grazing and dry farm land owners. (Page 21)
- SUGGESTION 6: Request that the county board of supervisors revise the county disaster relief ordinance to allow claims to be filed within six months of the disaster, even after an application has been sent by the assessor. (Page 30)
- SUGGESTION 7: Screen fire department reports for eligible calamities. (Page 30)
- SUGGESTION 8: Use correct forms for application for disaster relief. (Page 31)

II. REAL PROPERTY ASSESSMENT

A. THE APPRAISAL PROGRAM

1. Introduction

Under our present property tax system, a county assessor's program for assessing real property includes the following elements:

- (1) Revaluation of properties that have changed ownership;
- (2) Valuation of new construction;
- (3) Annual valuation of certain properties subject to special assessment procedures, such as land subject to California Land Conservation Act contracts and taxable government owned land; and
- (4) Annual review of properties that are experiencing or have experienced declining values ("Proposition 8" appraisals authorized by Section 2(b) of Article XIII A).

In order to accomplish the assessment of real property subject to any of these four elements, the Monterey County Assessor has assigned members of his real property appraisal staff to the several geographic areas of the county. An appraiser assigned to a particular area is usually called upon to appraise any of the various types of property found in that area. Those assigned to predominately agricultural areas tend to become specialists in the valuation of that type of property. The general arrangement seems to work in a satisfactory manner.

2. Change in Ownership

a. Transfer Processing

Recorded documents and Preliminary Change of Ownership Reports (PCOR's) (filled out by assessee at time of recording and conveyance) are received daily from the recorder's department by the assessor's transfer section. The transfer section consists of four people responsible for culling deeds, verifying legal descriptions, assessee's name, address, and assigning a transfer code. The transfer code determines how the transfer will be processed by the change in ownership unit. After verification of deed information and assignment of transfer codes, the deeds are sent to the data entry unit for processing and the PCOR's are given to the change in ownership unit for filing.

The change in ownership unit consists of two appraisers who are involved in the analysis of documents from the transfer division plus one clerk who handles the necessary correspondence. Documents with transfer codes 1, 2, 3, 5, A, B, and C will be forwarded directly to the appraisal department and those with codes 4, 8, 9, D, and H will be reviewed by the change in ownership division. A transfer history for partial interest transfers will be triggered by code H. The decision for reassessment pertaining to the above codes are noted on the PCOR or change of ownership statement (COS) by the change of ownership appraiser, then sent to the field appraiser for assessment. If the PCOR is not properly filled out or not received by the assessor's office, the change in ownership division will send a COS to be completed by the

assessee. However, no penalty or second notice is sent when there is no response. This is an area where the assessor is not in full compliance with Section 482 of the Revenue and Taxation Code pertaining to the penalty phase of this topic. The county has a 67 percent response rate from COS's sent to the taxpayers. All non responses to requests for completed COS's are turned over to field appraisers for full valuation.

We commend the assessor's staff for designing a worksheet that effectively tracks partial interest transfers and for the worksheet they currently use for comparable sales analysis.

RECOMMENDATION 1: Apply the penalty for nonresponse by taxpayers to the change in ownership statement.

The Monterey County Assessor's Office fails to apply penalties for nonresponse to COS's; this is in conflict with Section 482(a) of the Revenue and Taxation Code which requires compliance to the assessor's written notice within 45 days. A nonresponse requires a penalty of either: (1) one hundred dollars (\$100), or (2) 10 percent of the taxes applicable to the new base year value---whichever is greater but not to exceed two thousand five hundred dollars (\$2,500). Currently, the assessor's change in ownership division sends a COS to taxpayers which includes the penalty clause. However penalties are not enforced, and second notices are not sent.

We recommend that the assessor direct his staff to apply penalties in accordance with Section 482 in order to be in full compliance with the Revenue and Taxation Code.

b. Cash Equivalent Adjustments

Section 110 of the Revenue and Taxation Code and Property Tax Rule 4 define market value in terms of cash and require the conversion of debts and noncash components of a sale to their cash equivalents.

RECOMMENDATION 2: Develop and implement a written policy for making cash equivalent adjustments.

Currently, the assessor's office does not have a written policy or procedure for making cash equivalent adjustments. They are made at the discretion of the appraiser when evidence dictates. A cash equivalent policy should be implemented in the assessor's office based on the principles expressed in Assessors' Handbook Section 510F, Cash Equivalent Analysis.

After the policy is implemented, periodic reviews by a designated member of the appraisal staff should be made to ensure that proper adjustments are being made in compliance with the applicable statutes regarding cash equivalency.

c. Improvement Bonds

Bonds are issued under the Bond Acts of 1911 and 1915. Both acts allow bonds to create first liens against property, and a bond can be subordinated only to a previously issued bond. Property Tax Rule 4 (b) provides that when appraising an unencumbered fee interest, the appraiser shall convert the sale price of a property encumbered by a debt to its cash equivalent fee value by adding to the sale price of the equity the present value of the debt. Bonds issued under 1911 or 1915 Acts are debts, not taxes, and a county assessor's appraiser must adjust the sale price for these unpaid debts.

The Monterey County Assessor's Office implemented a discovery and tracking program on March 1, 1995 for properties encumbered with bonds. All properties with bonds were identified and fed into their computer network. However, our review indicated that several properties purchased since March 1, 1995, which had outstanding bonds, were not properly appraised.

SUGGESTION 1: Review the bond tracking program to ensure that all properties with bonds are properly appraised.

From a list of properties provided by the county auditor's office, we identified five tax-rate code areas that include properties with bonds. In our review we picked 15 properties that were encumbered with bonds and were purchased after March 1, 1995 from those five districts. We found that properties in only one of the five tax-rate areas reflected an adjustment for bonds. In the other areas, sales dated after March 1, 1995 were enrolled by the assessor's office at the selling prices, without the cash equivalent of the unpaid bond balances being added to the sale prices.

The supervisor of the field appraisal crew should review the bond tracking program with the appraisers to ensure that all properties with bonds are properly appraised.

A list of outstanding bonds is available to the assessor's office from the auditor's office and the city clerk's office of tax-rate areas that receive revenue from specified improvement bonds. The assessor's office should obtain a current list each year to be used as a quick reference by the field appraisers to identify property with bonds.

d. Legal Entity Ownership Program (LEOP)

The Policy, Planning, and Standards Division's LEOP section sends to each county a list of legal entities that have reported a change in control and ownership. Each of the reported changes in control transactions are investigated and verified by LEOP's staff using questionnaire PT-100-B (Statement of Change in Control and Ownership of Legal Entities). The listing includes the names of acquiring entities; the change date; the date resolved by LEOP; the assessor's parcel numbers; identification of properties owned or leased on the change date; and whether or not they have machinery and equipment.

We randomly checked 30 properties of the approximately 170 corporate or partnership changes on the LEOP list sent to Monterey County and found no errors pertaining to identification and change in ownership enrollment. We also cross checked the business property statements (Form AH 571-L) for years 1994 and 1995 and found that 40 percent of businesses undergoing a change in ownership did not mark the appropriate box that would indicate to the assessor's office a change in control. However, we found that the change in ownership section was aware of the changes and had taken the appropriate action.

Based on our review, we believe that the change in ownership section is properly processing LEOP notices.

3. New Construction

a. Introduction

California law requires that newly constructed real property be valued as of the date construction is completed. In Monterey County, the primary source for discovering new construction is building permits issued by the various agencies. Additionally, staff appraisers discover construction activity while they are canvassing their assigned areas of the county. Occasionally, information is supplied on business property statements.

It is important for an appraiser to know of every building permit that is issued for a particular property, and whether or not that permit involves assessable new construction. The appraiser needs a record of all prior permit information to help make informed judgments about current condition, quality, and market value.

The assessor's staff has a good program to ensure that permits received are analyzed for assessable new construction. All copies of permits are filed in the appraisal folders for future reference. The suggestion we make regarding the permit processing function involves procedures in the various permit issuing agencies in Monterey County, not the county assessor's office.

In the prior assessment practices survey report of Monterey County, we suggested that the appraisal staff document the source of construction costs in appraisal files. The assessor elected not to incorporate our suggestion. After reviewing many real property files, it is apparent that the files are still difficult to follow; therefore, we repeat the suggestion in this report.

The Monterey County Assessor has joined 7 other county assessors' offices in the state in automating his office by use of the Megabyte computer system. The computer system has enabled the appraisal staff to perform their duties in a much more timely and efficient manner. We offer one recommendation regarding low-valued supplemental billings where the assessor's staff is overriding one of the automatic functions of the Megabyte computer system.

Finally, our review of tenant improvements revealed a discrepancy in the manner in which secured versus unsecured accounts are enrolled. We make one recommendation to eliminate the inequities in the assessment of tenant improvements.

b. Building Permit Processing

The assessor's office has taken significant steps in the last 10 years to enhance and streamline the building permit processing program. Permits are received from 13 issuing agencies and processed by one clerk in the assessor's office. The procedures and control measures within the assessor's office are quite effective. There are several measures that the various permit-issuing agencies could take, however, to further improve the assessor's building permit processing program.

SUGGESTION 2: Improve the program for handling building permits by: (1) encouraging all issuing agencies to assign permit numbers when the building permits are issued; (2) requesting that the various issuing agencies include the assessor's parcel number (APN) on all building permits; and (3) asking the City of Monterey permit issuing agency to change the parameters of their computer report to include all building permits.

(1) Permit Numbers

Most of the permit issuing agencies in Monterey County number the permits as they are issued. This provides a numerical control for the assessor's office to ensure that a copy of all building permits are received. There are, however, two permit issuing agencies that use permit forms that are renumbered. Renumbered permits can create a tracking problem because the assessor's office cannot identify building permits that were lost, maintenance permits that were not sent to the assessor's office, or blank permits that were never completed and returned to the issuing agency by the applicant.

The assessor's ability to track and control building permits would be enhanced if all issuing agencies assigned a number to each permit as it is issued, rather than using renumbered permit forms. The assessor should encourage all issuing agencies to number the building permits in this manner.

(2) Assessor's Parcel Numbers (APN's)

Section 72 of the Revenue and Taxation Code requires that copies of all building permits be sent to the county assessor's office; however, the section is silent as to the format or wording of the permit application. It does not require that the permit issuing agency require the applicant to provide the APN for the parcel.

Some of the permit issuing agencies in Monterey County are diligent in requiring that the APN be provided by the applicant. Two permit issuing agencies, however, do not even provide space on their permit applications for an APN.

The APN is a key aid to the clerk in the assessor's office when matching a permit to a particular parcel. When permits are issued on parcels in rural or newly developed areas that do not have street addresses, it is frequently very difficult for the assessor's office to locate the

appropriate situs if the APN's are not provided. Also multiple permits issued to the same APN can identify assessable new construction.

While there is no legal requirement for the agencies to require an APN on a building permit, we suggest that the assessor ask the permit issuing agencies to ensure that the APN is included on all applications.

(3) City of Monterey

Our review of building permits issued by the City of Monterey revealed that many permits are not sent to the assessor's office. Permits issued for electrical, mechanical, or plumbing work are routinely eliminated from the computer report of issued permits that is provided to the assessor's office. This practice apparently stems from an opinion issued by the Monterey City Attorney in 1986.

When the city attorney's opinion was issued in 1986, the City of Monterey permit issuing process was not automated. Extra effort was required to provide a copy of permits to the assessor's office. The agency now, however, is fully automated. In fact, the City of Monterey permit issuing agency provides the assessor with a comprehensive monthly listing of permits issued. However, the agency does not send a copy of each individual building permit to the assessor.

Based on the prior policy, the permit agency still eliminates electrical, mechanical, and plumbing permits from their copies sent to the assessor. Because of this practice, the assessor's staff may not be made aware of new construction such as rural irrigation pumps (electrical permits), air conditioning units (mechanical permits), or room conversions (plumbing permits).

We suggest that the assessor request that the City of Monterey permit issuing agency broaden the scope of their computer-generated report to include all building permits.

c. Valuation

SUGGESTION 3: Document the source of unit costs on appraisal records.

Some of the Monterey County appraisal files we reviewed contained little or no reference to the source data for the unit cost figures used to appraise the properties. Consequently, it is very difficult to validate the value conclusions reached by the appraisers.

To maintain properly documented appraisal files and to ensure continuity should staff turnover occur in the assessor's office, we suggest that the appraisers note the unit cost sources on the appraisal records in the cases where SBE costs are not used, including dates of publication and the specific tables. The notations should be sufficiently clear so a reviewer can quickly find the source to verify that the correct cost factors were used.

d. Small Supplemental Assessments

RECOMMENDATION 3: Allow the Megabyte computer system to forward all supplemental tax bills to the county auditor's office.

In the prior Monterey County assessment practices survey report, we recommended that the assessor request that the board of supervisors adopt a resolution allowing him to cancel small supplemental assessments, i.e., less than \$2,000. In our recent review of the process, the assessor indicated that he had not requested that the resolution be passed because the current county computer system automatically transmits the assessment to the county auditor without any extra work on the part of the assessor's staff.

The assessor's staff is overriding the computer system to cancel the supplemental information on new construction values of less than \$1,000. These assessments are not sent to the auditor for action.

Section 75.55 of the Revenue and Taxation Code requires that the county board of supervisors must enact an ordinance to allow the county assessor to cancel small supplemental assessments. Lacking the ordinance, the assessor lacks the authority to cancel a small supplemental assessment.

Since the county assessor has decided against requesting that an ordinance allowing him to cancel small supplemental assessments be enacted, we recommend that the assessor's office discontinue overriding the Megabyte computer system and allow the system to process all supplemental assessments to the county auditor.

e. Tenant Improvements

A portion of the business property statement (AH 571L or alternate schedules) is reserved for the reporting of costs expended by tenants for improvements to the rented premises (land or buildings) where they operate their business, trade, or profession.

In Monterey County, when structural improvements are reported on Schedule B of the business property statement, two different actions may occur. If the property is assessed on the secured roll, the business property section makes a copy of the Schedule B and sends the information to the real property section for review. This action is documented on the property statement in the business property section, and copies of the property statements are filed in the real property files. The appraisal files are well documented as to the action taken by the real property section.

However, when a tenant reports structural improvements on Schedule B of the business property statement and the property is assessed on the unsecured roll the action taken is as follows: The business property section (1) classifies the item as a fixture; and (2) gives the item a 15-year life for depreciation purposes.

RECOMMENDATION 4: Properly classify tenant improvements on unsecured accounts.

Revenue and Taxation Code Section 441 mandates that taxpayers shall annually file a property statement reporting to the assessor all taxable property owned, claimed, possessed, controlled, or managed. Items reported in column 1 of Section B on the business property statement are structural improvements.

These structural improvements could be (1) structural improvements that require assessment; (2) structural improvements that are normal maintenance and do not qualify as new construction; (3) structural improvements that are remodeling of existing improvements which do not require assessment; or (4) structural improvements that are actually fixtures and which should be classified and assessed as such. Frequently, it is difficult to determine from the description provided on the property statement into which category a reported structural improvement falls.

The procedures used by the Monterey County Assessor's office for processing reported structural improvements for secured accounts are quite effective. When the business property section transmits the information to the real property appraiser, the appraiser is able to follow through to make an informed decision regarding the proper enrollment, if appropriate of the improvements.

However, the automatic classification of reported structural improvements as fixtures on the unsecured roll can lead to a number of inequities. Differing valuation procedures between secured and unsecured rolls can cause the following inconsistencies:

- (1) "Structures" assessed on the secured roll are given a base year value and are increased yearly by the Consumer Price Index (CPI); structures assessed on the unsecured roll do not have a base year value and are depreciated yearly.
- (2) "Structures" automatically assessed on the unsecured roll may consist of items that reflect normal maintenance or remodeling and do not qualify as assessable new construction.
- (3) Some structures assessed on the unsecured roll may be fixtures as referred to in Revenue and Taxation Code Section 75.5 and should not receive a supplemental billing, even in the first year.

All reported structural improvements should be investigated. If they are determined to be assessable structural improvements, they should be enrolled as real property improvements, receive base year values, and be subject to the annual CPI adjustment.

Discussion with users of the Megabyte computer system in other counties indicate that they process their reported structural improvements in this manner.

In order to ensure that all taxpayers who report tenant improvements on the business property statement are treated uniformly, we recommend that all reported tenant improvements be thoroughly investigated and then properly classified.

4. Declines in Value

RECOMMENDATION 5: Annually assess all properties at the lower of current market value or factored base year value.

The decline in value program in the assessor's office has three main aspects: (1) on request of the property owner, specific properties are reviewed for a potential decline in value; (2) beginning with the 1993-94 assessment roll, the annual inflation factor has not been applied to properties that transferred after June 30, 1989 and (3) areas where declines are known to have occurred are reviewed on a property by property basis. There were approximately 105,000 secured parcels on the 1995-96 assessment roll; of these, 21,477 parcels or about 20 percent of the secured roll units had reduced assessments due to value declines. Of the 21,477 parcels whose assessments were reduced, 3,823 parcels were reduced based on a specific property analysis, while 17,654 parcels were reduced by not applying the annual inflation factor. Properties for which assessments have been reduced as a result of the owner's request are reviewed each year.

Real property subject to Article XIII A of the California Constitution "Proposition 13" must be annually assessed at the lower of its factored base year value or its current market value (Section 51(a) of the Revenue and Taxation Code). Furthermore, Section 51(e) was amended, effective January 1, 1996, to explicitly require that properties whose taxable values have been reduced due to a decline in value must be annually reappraised in order to determine whether the full cash value (i.e., current market value) exceeds the factored base year value. In Monterey County, the requirements of Section 51(e) may not be met for the 17,654 parcels on which the annual inflation factor has not been applied. The value of residential and commercial properties in Monterey County began to level off in late 1989. However, agricultural property values, in most cases, have remained stable or increased. The county's sales analysis indicated irrigated crop land has increased an average of 7.0 to 10.0 percent per year and grazing land 2.0 percent per year since 1989.

The current policy adversely affects assessment uniformity. We reviewed the taxable values of selected properties which transferred from 1989 to 1994. These properties were generally in homogenous subdivisions. In a few cases we discovered similar properties which had transferred at about the same time with significantly different 1995/96 taxable values. Some properties had received decline in value adjustments as a result of taxpayer's requests, while others had received no adjustments or perhaps only the suspension of annual factoring.

Thus, there was inconsistent treatment within subdivisions when reducing the taxable values of properties whose current market value was less than the factored base year

value. The assessor's staff has taken a proactive approach in several instances. Staff has reviewed all assessments in at least three major subdivisions where decline in value problems were identified. In addition, the assessments on all greenhouse properties are reviewed each year. The values of these latter properties have been adversely affected by a change in tariff regulations which caused depressed prices for wholesale flowers.

We recommend that the assessor's office adopt a systematic method for annually reviewing the assessments on the 17,654 parcels for which annual factoring has been suspended and establish a taxable value on properties which is the lesser of current market value or factored base year value. As noted above, this annual review is a statutory requirement. We recognize that it might be impractical, due to staff limitations, to individually evaluate and reappraise each of these properties each year. Some assessor's offices have dealt with this problem by applying an approach that is more suitable to mass appraisal. For example, using annual market data, varying percentage adjustments to reported sales prices, based on the date of sale, might be estimated and applied annually to all those properties which sold during the time interval prior to the probable value decline.

We also recommend that additional residential subdivisions be reviewed for declines in value. If it is determined that property values within a subdivision have declined and that reductions in taxable values are warranted, the assessor's staff should reduce the values of all properties that qualify.

Recent legislation (Chapter 164 of the Statutes of 1995, effective July 24, 1995) amended Section 4831 to permit corrections to the roll for up to one year after the delivery of the roll if the purpose of the reduction is to reflect a decline in market value below factored base year value. This will permit the assessor to make a decline in value reduction after the roll has closed.

B. SPECIAL PROPERTY VALUATION

1. Possessory Interests

A taxable possessory interest is the right to use nontaxable publicly owned real property. The term "possessory interest" (PI) as it is used for property taxation in California includes either the possession or the right to possession of publicly owned real property for a term less than perpetuity.

Approximately 2,000 possessory interests exist in properties in Monterey County. They have been assessed for many years by one senior appraiser.

In order to maintain a current list of users of publicly owned properties, a form letter was developed by the assessor's office for annual inquires to public agencies. The county's letter requesting data is mailed to all tax exempt agencies in the county and includes a request for the following items of information: (1) name of tenant and DBA; (2) mailing address; (3) amount of rent; (4) term of lease plus options; (5) location of leased property; and (6) use of property. For example the City of Monterey responds by submitting a list of tenants with lease data. The county appraiser cross checks this list with the prior year's list to find deletions and assessable

additions. The information received from the agencies also allows the appraiser to make decisions concerning the amount of income and the term of possession to use in the valuation of certain types of property. For example, all airplane tie-downs are valued using actual rents with estimated term of possession of three years.

The harbor master of the Monterey Marina sends to the assessor's office each year a rate schedule according to berth numbers, size of berth, and rental fees with an annual, monthly, weekly, and daily rate. From this list the appraiser estimates a P.I. value for each size of the berth. The county's valuation of PI's in the marina reflects a five-year term of possession at a rate of 10 percent less 10 percent discount for utilities (expense paid by lessor). A list of values by berth number is then sent from the Monterey office to the main office in Salinas where a clerk processes the assessment. The assessments are made on the unsecured roll and reference kept in the "Acme Visible File".

We found the county's anticipated term of possession and yield rates used for airplane tie-downs and boat slips in the marina to be appropriate for the type of property being valued.

Based on our review, we found the appraiser responsible for the valuation of PI properties to be well versed in the proper PI valuation techniques and very well informed and knowledgeable pertaining to properties within his jurisdiction. We did find an ongoing problem referred to in our 1993 assessment practice survey that has not been resolved; not all possessory interests in the fairgrounds are being assessed.

RECOMMENDATION 6: Assess all possessory interests at the fairgrounds.

Fairground Possessory Interests

There are numerous interim events at the Monterey County Fairground throughout the year. The county at present is assessing only the major accounts. We verified through the fairgrounds administrative assistant that during fair time there are approximately 60 commercial concessions and 25 food stands, of which about one-half are fund raisers. We recognize that some community sponsored fund raisers and nonrecurring events may be exempt or non-assessable. However, our findings suggest that some of these private interim uses may exhibit the private benefit, durability, exclusivity, and independence necessary to constitute taxable possessory interests.

We recommend that all interim uses at the fairgrounds be reviewed and evaluated to see whether they warrant assessment.

SUGGESTION 4: Use the direct method of capitalizing all relevant fees paid by interim users of the fairgrounds.

The valuation of the interests of promoters of a large music festival is based only on the basic rent paid for the use of a building and land. This amount does not include fees paid by the promoters based on a percentage of the gate receipts and food and beverage sales. Without the addition of these amounts, the rent capitalized cannot reflect the value of the promoter's rights to the use of the fairground facilities. The county's values for another festival also appears to be under valued when rents capitalized by the county are compared to actual fees paid to the fairgrounds.

We suggest the county review and analyze the lease agreements for interim uses and obtain a description and verification of the fees paid to the fairgrounds. This is important in order to arrive at a true rent indicator that reflects the worth of the rights used and the restrictions on use inherent in the valuation of PI properties. We also suggest the direct method of capitalization for interim use properties using actual fees paid.

2. Manufactured Homes

Certain manufactured homes have been assessed on the local tax roll since July 1, 1980. Under current law, a manufactured home becomes subject to local property taxation when first sold new on or after July 1, 1980 or by owner's request for conversion from vehicle license fee to local property taxation. A manufactured home is defined in Sections 18007 and 18008 of the Health and Safety Code, and statutes prescribing the valuation and assessment of manufactured homes are in Sections 5800 through 5842 of the Revenue and Taxation Code.

There are approximately 1,209 manufactured homes assessed in the County of Monterey. Most are located in rental parks and are properly assessed as personal property. Even though manufactured homes are classified as personal property, they must be treated, in most respects, under the same standards as real property subject to Article XIII A.

The assessor's office has assigned one senior real property appraiser to value all of the manufactured homes in the county. The appraiser sets up his workload on a three-year cycle by geographic location and reviews approximately one-third of the manufactured homes each year for declines in value. Properties not scheduled for review remain unchanged. The county appraiser believes that manufactured homes in general continually experience declines in value. Therefore, it is the assessor's policy to withhold the trending factor to base year values for subsequent roll years. Reviews for declines in value of manufactured homes not in the cycle can be triggered by taxpayer's complaints or new construction flagged by a building permit. When an appraiser first becomes aware of new construction, the total property review that is done may result in an overall value reduction. A comparison of such properties to neighboring manufactured homes that remain physically unchanged suggests that inequities exist.

The assessor's primary method of discovery for taxation of manufactured homes is through the Department of Housing and Community Development (HCD) listing and from individual sales of manufactured homes reported by dealers. Manufactured homes acquired new are reviewed by the appraiser and are usually valued at the sales price.

Since many manufactured housing units in the county are located in rental parks, the county relies heavily on recognized value guides to arrive at a fair market estimates during valuation reviews. Section 5803(b) provides that the assessor shall take into consideration sale prices for manufactured homes listed in published value guides. The assessor's staff is currently using the National Automobile Dealer's Association (NADA) and the Kelley Blue Book (Kelley) value guides for their assessment of manufactured homes. Resales are mainly used as a cross reference to validate values derived from the value guides and for the computation of land residuals (site value attributable to park enhancement). Because NADA and Kelley values are compiled from many sales, their tables provide indications of values that reflect the make, model, and age of the coach without the effect of location differences. We reviewed several appraisals of manufactured homes in rental parks and noted that the NADA guide was properly used. We also found from our random sampling of resales of manufactured homes that the appraiser had made the proper adjustments for park enhancement. In some cases the appraiser felt there was no premium paid for in-park location and accepted the actual sale price, and in other cases the appraiser relied on the value guides (NADA and Kelley) that indicated a lower value than the sale price. The appraiser did not blindly follow a single value indicator.

Our review showed that the procedures followed in the Monterey County Assessor's Office for manufactured homes conform to both relevant statutes and accepted appraisal procedures.

3. California Land Conservation Act Properties

An agricultural preserve is established by contract between a landowner and the county pursuant to the California Land Conservation Act of 1965 (CLCA). Lands under contract are valued on the basis of agricultural income-producing ability, including any compatible use income (e.g., hunting rights), and are assessed at the lowest of this restricted value, the current unrestricted market value, or the factored base year value as defined in Article XIII A of the California Constitution. Sections 422 through 430.5 of the Revenue and Taxation Code deal explicitly with the valuation of lands subject to agricultural preserve contracts.

For the 1995-96 lien date, Monterey County had 718,937 acres (2,855 parcels) encumbered by CLCA contracts. There were approximately 10,000 acres in nonrenewal status, while 10,200 acres were valued at the factored base year values because these were lower than the calculated restricted values. There was an increase in restricted acreage of about 58,000 acres or 8.5 percent between the 1991-92 and 1995-96 assessment rolls. The total enrolled restricted value on the last published roll (1995-96) was \$214,288,069.

CLCA properties in Monterey County are primarily used as grazing and dry farm lands (650,600+acres), irrigated crop land (58,000+acres), and vineyards (10,000+acres). The CLCA assessment program is completely computerized, including the annual recalculation of nonrenewal values and the comparison among current restricted value, factored base year value, and current unrestricted market value. Our review of computer-generated restricted land and living improvement values indicate that the assessor's computerized CLCA program is adequate. One senior appraiser runs the program. Considering the time and resource constraints, he does a fine job.

Our 1993 assessment practice survey had a four-part recommendation regarding CLCA properties. One element of the recommendation dealt with the valuation of homesites; the county has implemented this portion of the recommendation and now uses the proper base year for homesite valuation. Another element in the recommendation focused on the risk component to be included in the capitalization rate. The risk rate for properties valued under CLCA contracts should be based on the uncertainty or risk that an owner may not receive income. Natural disasters, uncertainty of future water supply, and ongoing sea water intrusion are examples of risks affecting agricultural properties. Our discussion with the rural appraiser and a review of several restricted property appraisals indicated that Monterey County considers the appropriate aspects of risk in the risk component of the capitalization rate.

A third element of our 1993 recommendation concerned the periodic mailing of rental questionnaires to owners of CLCA properties. The rural appraiser designed a rental questionnaire soon after our field work was completed for the 1993 survey and mailed forms to each CLCA land owner; the return rate was about 75 percent.

RECOMMENDATION 7: Assess fixed irrigation pumps, fixed booster pumps, and in-ground irrigation improvements as improvements.

This recommendation, in some form, has been included in our assessment practices survey reports for 20 years. It was an element of a recommendation in our 1993 Monterey County survey. For more than 25 years, Monterey County has classified most irrigation systems as land and included their value as an undefined portion of the "land" value. They classify solid set sprinkler and above ground drip systems as improvements. The assessor's staff still treats existing, replacement, and new irrigation systems as components of "land" value; however, on new and new replacement systems they now indicate on their appraisal records the base year and estimated value of these improvements. According to the assessor's staff this will assist them if they reclassify the irrigation systems to improvements sometime in the future.

We make this recommendation again for the following reasons. Irrigation improvements (e.g., fixed pumps, permanently installed pipelines, non-earthen dams) are properly defined and classified as improvements (Property Tax Rules 121, 122, 123, and 124). Unless the parties to the contract agree, as provided in Revenue and Taxation Code Section 423 (e), nonliving improvements are not subject to the restricted valuation methodology of the CLCA land. Under Article XIII A (Proposition 13) assessment procedures, newly constructed irrigation improvements and irrigation improvements subject to a change of ownership should receive new, separate base year values and a supplemental assessment. In addition, since some special

assessments (existing and future) may apply only to land value, incorrect assessments will result when some land assessments erroneously include the value of irrigation improvements.

The assessor's staff should inventory and assign realistic base year improvement values to all irrigation systems; however, staff limitations and the issue of cost effectiveness may preclude this approach. An alternative approach is to correctly classify, inventory, and appraise all irrigation systems on each parcel when a transfer or new construction occurs.

SUGGESTION 5: (1) Revise dry grazing land valuation procedures as outlined in Assessors' Handbook Section 521 and; (2) revise the production, income, and expense questionnaire mailed to grazing and dry farm land owners.

Grazing Land Valuation

Monterey County uses a per-acre rent when valuing open-space dry grazing land. While applying an economic rent per acre is an appropriate method for many types of CLCA land, it fails to recognize the various capabilities and qualities of grazing lands (open, steep, brushy, rocky, etc.), and is therefore not recommended when appraising grazing land.

The Board's staff utilizes the animal unit (AU) and animal unit month (AUM) as the unit indicator of economic rent. Although the market rental rate is stated in dollars per acre, animal unit months (AUM's) is more appropriate when establishing comparability of sold properties or comparing rental income levels for grazing lands. The animal unit is a simple and accurate method for comparing grazing lands. It is the most flexible measuring device for estimating carrying capacity and thus productivity of grazing lands.

A grazing land appraisal unit consisting of more than one parcel generally has areas of different carrying capacity. Assessors' Handbook Section 521 suggests that the total value of each grazing land appraisal unit should be allocated to the individual parcels according to the carrying capacity of each parcel comprising the appraisal unit. It is improper to place an average value per acre on the entire appraisal unit. Similarly, areas of significantly different capability within a parcel should be separately estimated.

Monterey County, in most cases, uses the average price per acre rent for the total appraisal unit. This practice is used for expediency. The total value of the unit may be correct; however, if part of the unit transfers or splits for various reasons, a value distortion could occur that would be reflected in the supplemental assessment and residual assessment unit. We suggest the Monterey County appraisers use animal units or AUM's when valuing CLCA grazing lands, and make proper value allocations to each parcel based on productivity.

Rental Questionnaire

As noted above, the county has designed and mailed a rental questionnaire as recommended in our 1993 survey. However, no questions pertaining to carrying capacity or dryfarm production are on the form. We suggest that the rural appraiser redesign the questionnaire in order to obtain information on grazing and dry farm production. The form should include the type of grazing operation (e.g., cow/calf, stocked, or both), number of head, months grazed, average weight and weight gain, supplemental feed required, rent and expenses. The county's current rental questionnaire does ask about income from compatible uses, such as transmission tower sites and hunting rights, and this should also be included in the new form. The questionnaire should be mailed to each grazing and dry farm landowner in the county regardless of whether their lands are under CLCA contract or not, thus providing a broader range of rental data.

4. Water Companies

The three types of water systems are: private, public utilities, and mutual. Government owned water systems located outside the boundaries of the owner are also taxable to the extent that they may consist of real property that was taxable at the date of acquisition.

Private Water Companies Regulated by the CPUC

Monterey County has 11 privately owned water companies that are subject to regulation by the California Public Utilities Commission (CPUC). Being subject to regulations by the CPUC, they must submit annual financial reports on their operations to the CPUC. CPUC regulates the rates charged by these companies with profits being limited to a fair return on the companies' outstanding investment in their net assets, i.e., the historical cost less accrued depreciation (HCLD).

Because profit is tied to a declining book investment, the market value of the taxable property may also have declined. As a result, the current market value of the taxable property may be less than its factored based year value, making it necessary to annually compare the two values in order to determine the company's taxable property value on the lien date. We note that in Monterey County the water companies are assessed at factored base year value, with no consideration being given to the current market value.

Two minor irregularities were noted as follows:

- (1) The present worth factor that is applied to the advance for construction is processed at a unilateral factor of 50 percent instead of applying the termination factors as provided by the CPUC.
- (2) Allocations to the value of personal property from the total value is based on the personal property book value instead of applying the proper age/life trend factor. The correct procedure if HCLD is not the relevant value

indicator would be to trend and depreciate the personal property historical costs, summarize these costs and subtract them from the total value.

While historical cost less accrued depreciation (HCLD) is an important indicator of value for regulated water companies, it is not the only method available in determining a company's current market value. HCLD is an important indicator only to the extent that potential buyers and sellers of water companies are influenced by CPUC regulations. The sales and the income approach may indicate that the market value is lower or higher than HCLD. We therefore encourage the assessor to consider other approaches to value when determining the current market value of regulated water companies.

Mutual Water Companies

Mutual water companies are associations organized to deliver water solely to their members at cost and not for profit of the enterprise. Ownership is usually held as shares of stock that are appurtenant to the land served or held by contract with the owners of the land served. Usually, this interest also transfers with the change in ownership of the parcels it serves.

Caution should be taken when assessing mutual water companies because in certain instances where the shares are appurtenant to the land, the value of the water company is typically reflected in the value of the land that is served and to which the shares are attached. If the assessor does not recognize this fact and makes an appraisal of the water system separately while appraising the land using the sales comparison approach, a double assessment will result.

We confirmed that processing of the mutual water companies was proper.

5. Mineral Properties

Section 469 of Title 18 of The California Code of Regulations (Property Tax Rule 469) provides the guidelines for valuing mineral rights. The provisions of this rule apply to the valuation of the rights to explore, develop, and produce minerals, other than oil, gas, and geothermal resources, and the real property associated with these rights.

There are five operational aggregate and mineral sites located in Monterey County. All of the sites are owner-operator in nature and have an assessment of approximately \$14.3 million on the current roll.

RECOMMENDATION 8: Revise mineral rights assessments by: (1) applying Property Tax Rule 469 to all mineral right assessments; and (2) including essential information in the mineral property appraisal files.

Apply Property Tax Rule 469 to all Mineral Right Assessments

In our review of these mineral properties, we discovered that most are being valued by applying an inflation factor, pursuant to Section 51(a) of the Revenue and Taxation Code, to the prior year's roll value, and only one property was valued by an income approach

using the royalty method. We commend the assessor for using the income approach in valuing this property, but there is a need for improvement in the valuation of the balance of the properties. The quarry properties are currently active and have reported annual production data to the assessor, making it possible to complete an income indicator for use in all of the properties valuations. Simply applying an inflation factor to the prior year's value is incorrect. Any declines in value of the mineral property must be recognized when the market value of the appraisal unit is less than the current adjusted base year value of the same unit.

Include Essential Information in the Mineral Property Appraisal Files

Our review of the assessor's records revealed that there is very little formal documentation in the appraisal files. The appraisal folders lack evidence of sales analysis, mineral leases, yield rate studies, or royalty agreements pertaining to the valuation of mineral properties. In addition, only one person has received formal training in the mining industry appraisal field since the 1990 change to Property Tax Rule 469.

III. BUSINESS PROPERTY ASSESSMENT

A. INTRODUCTION

The business property section of the Monterey County Assessor's Office is responsible for annually processing more than 12,700 property statements and for appraising more than 6,263 boats and 377 aircraft. The business property section must also appraise a variety of commercial, industrial and agricultural properties. This assessment task is accomplished by seven auditor-appraisers (including the chief of the business property section), one accounting technician, and three account clerks. This level of staffing is the same as when our last survey was done during June 1993, although some turnover of auditor-appraisers has occurred.

The Board's County Property Tax Division's (CPTD) sampling of the 1993-94 Monterey County assessment roll included 60 secured and unsecured business property assessments. In 42 of the sampled items, the county values differed from the value determined by CPTD staff. Specifically, the county's assessed values exceeded the CPTD staff's appraised values in the case of 10 sampled items, while in 32 cases the CPTD staff's appraised values were higher.

Value differences noted in eight of the sampled items were caused by problems with full value factors. This is the major cause of differences between the CPTD and county appraised values for business properties in nearly every county sampled by CPTD. Full value factors are produced by combining percent good factors (reflecting economic lives) and replacement cost indices of properties of similar type and age. The CPTD appraiser relied almost exclusively on the indices contained in Assessors' Handbook Section 581, while the Monterey County appraisers used modified averages of these indices.

We also found differences in eight pleasure boats which were sampled. All of the sampled boats had lower enrolled values than indicated by the Board's appraiser. However, we later determined that the assessor's boat section personnel use reasonable, cost effective appraisal and control procedures for boats.

The remaining differences resulted from other miscellaneous causes.

B. ADMINISTRATION

Office Space

In our previous review we found that the business property section was in immediate need of additional office space. In addition, the boat files and the clerk responsible for the boat files were physically separated from the business property section. We had encouraged the assessor to find a way to move both the boat files and clerk responsible for the boat files closer to the business property section. During our current review we found that the assessor is in the process of remodeling the office to increase efficiency.

C. PROPERTY STATEMENTS

Business property assessments are based upon data submitted by taxpayers on the annual business property statements. The more accurate the data reported by taxpayers on the property statements, the more accurate the assessment roll will be.

Accounts with business personal property and trade fixtures at a full value of \$300,000 or more for four consecutive years must, by law, be audited at least once during every four-year period. Such accounts are classified as "mandatory audits." Most nonmandatory accounts are never audited. There is no statutory requirement that they be audited and most assessors lack the audit staff required to audit any accounts other than those designated as mandatory.

The assessor's program of receiving, reviewing, and safeguarding property statements is generally good. Management uses cost effective controls to monitor statement processing and to ensure a coordinated effort. Management accomplishes this end by using a combination of direct supervision, meetings and memoranda. Auditor-appraisers and clerical staff, in various business property units, such as leasing and boats, coordinate processing and cross-indexing efforts. Efforts are also coordinated with the real property and exemption sections. This coordinated effort increases operational efficiency and decreases the potential for incorrect or incomplete assessments.

Authorized Signatures

Below is a repeat recommendation from the prior review. Property Tax Rule 172 requires that the property statements and mineral production report forms be signed by the assessee, a partner, a duly appointed fiduciary, or an agent. When signed by an agent or employee other than a member of the bar, a certified public accountant, a public accountant, an enrolled agent, or a duly appointed fiduciary, the assessee's written authorization of the agent or employee to sign the statement shall, according to Property Tax Rule 172, be filed with the assessor.

In the case of a corporate assessee, the rule states further that property statement and mineral production reports shall be signed by an officer or by an employee or agent whom the board of directors has designated in writing, unless signed by a member of the bar, certified public accountant, or duly appointed fiduciary.

Property Tax Rule 172(d) also states:

"Neither the assessor nor the Board shall knowingly accept any signed property statement . . . that is not executed in accordance with the requirements of this section."

We examined the assessor's file of management directives and meeting outlines to determine what type of management control was in effect for screening property statements for proper signature authority and completeness of filing. We found that the assessor attempted to comply with Property Tax Rule 172 by directing business property employees to ensure legal signatures were on the property statements or to return them. However, we found numerous property statements signed by persons without the apparent authority to sign. These statements were not supported by letters authorizing the signature used.

RECOMMENDATION 9: Ensure that property statements are closely screened for proper signatures. Reject those that do not meet regulatory requirements.

By ensuring that property statements are properly signed or a written authorization filed, an assessor will increase the accountability of whoever signs and files the annual property statement. The corporate assessee will realize that the filing employee or agent is being charged by the corporation with the important duty of accurately and fully reporting all business property to the assessor. The written authorization calls attention to the fact that the corporate assessee is liable for consequences of the employee's or agent's errors in reporting.

D. EQUIPMENT VALUATION

RECOMMENDATION 10: When valuing machinery and equipment, use replacement cost factors that relate to the specific property being appraised.

The assessor's staff uses the tables from Assessors' Handbook Section 581, Equipment Index Factors (AH 581) to appraise machinery and equipment, but not in the manner intended. Table II-I, "Commercial Equipment Index Factors," contains schedules for 12 classes of commercial establishments or types of equipment. The county uses the arithmetic average of 11 of the 12 schedules to compute the replacement cost new (index factor times acquisition cost) rather than using the schedule that is appropriate for the particular property being appraised. This procedure does not follow established legal precedent.

The California Supreme Court ruled in Bret Harte Inn, Inc. v. San Francisco, 1 Cal. 3d 14, that the cost factors must be adjusted by the depreciation factors in a manner reasonably calculated to achieve full value with respect to the particular property being appraised. Since the computed taxable value begins with the replacement cost of a particular item, the factor should also reflect, as nearly as possible, the particular property being appraised.

E. ASSESSMENT OF COMPUTERS

The Monterey County Assessor's business property staff has properly used composite valuation factors provided by the Board in their valuation of non-production computers.

The valuation of computers and related equipment (herein referred to as computers) has been a contested issue between taxpayers and assessors for the last few years. In its continuing effort to maintain proper, equitable, and uniform property tax assessment, the

Board, in Letter to Assessors (LTA) 95/26, dated April 5, 1995, recommended valuation factors for assessors to use when valuing non-production computers for the 1995 lien date.

For the 1996 lien date, the Board in LTA 96/19 (dated March 6, 1996) and 96/27 (dated April 3, 1996) expanded these two tables into three tables, i.e., personal (\$25,000 or less), mid-range (\$25,000 to \$499,000), and mainframe (\$500,000 or more). These new tables contained factors that were developed after consultation with the computer industry and the assessors. It is the Board's position that the proper application of the factors would yield a reasonable estimate of current market value of computers for the 1996 lien date.

For the 1995 lien date, the assessor appropriately valued computers by using the Board-recommended factors as contained in the LTA 95/26. In assessing computers for the 1996 lien date, the assessor continued to follow the recommended factors as contained in LTA 96/27. The assessor's staff correctly applied the valuation factors from LTA 96/27 for mainframe computers and personal computers.

IV. OTHER ASSESSMENT PROGRAMS

A. DISASTER RELIEF

Section 170 of the Revenue and Taxation Code provides that a county board of supervisors may adopt an ordinance authorizing tax relief at any time during the tax year for the owner of any taxable property that suffers a loss in value exceeding \$5,000 through damages inflicted by a disaster, provided that the owner is not at fault. This section further prescribes procedures for calculating reductions in taxable value, applying for relief, and enrolling the value of restored property.

The Monterey County Code provides, in Section 5.44.010, a procedure for granting disaster relief. This procedure, which is in compliance with Section 170 of the Revenue and Taxation Code, was adopted in 1982 by Ordinance 2854. The annual volume of claims is not large--perhaps three dozen--mostly from property that has sustained damage due to a fire. The assessor's staff routinely read county newspapers to discover fire-damaged properties. A clerk then mails an application for disaster relief to the owner of those properties.

The winter storms of 1995, however, created a substantial workload for the assessor's office when hundreds of properties were damaged by extensive flooding of three major rivers in the county. The Monterey County Assessor's staff is to be commended for their aggressive efforts (1) to discover properties that had sustained flooding damage; (2) to make the owners aware of their rights for a property tax reduction under Section 170; (3) to develop standardized "cost to cure" guidelines to ensure uniform relief was being administered to all taxpayers; and (4) to maintain well-documented appraisal files for all property that received disaster relief.

Within two weeks of the storm disasters, the assessor's office mailed 2,609 letters with accompanying disaster relief applications to owners of properties that were believed to have suffered damage. This list of properties was compiled by the appraisal staff after canvassing the entire county. Ultimately, 792 claims were returned for processing.

A review of the claims indicated that they were processed timely, that values were uniformly and appropriately adjusted, and that repaired properties were placed back on the roll at their pre-disaster base year values only after a field check had been performed to ensure the repairs were completed. Overall, the county assessor's disaster relief program is administered in a consistent and professional manner. We offer the following suggestions to further refine the program.

SUGGESTION 6: Request that the county board of supervisors revise the county disaster relief ordinance to allow claims to be filed within six months of the disaster, even after an application has been sent by the assessor.

The Monterey County Assessor's current policy is to accept applications for disaster relief as long as it is within six months of the occurrence. This is not within the requirements of Section 170(a) of the Revenue and Taxation Code for owners who have not received a notice from the assessor's office. Owners who do not receive a notice from the assessor have under this code section, 60 days from the date of the incident to file an application for reassessment. However, by ordinance the time limit can be extended.

Section 170(d) provides that, within six months of the incident the assessor shall provide the owner with an application and the owner must respond within 30 days of the notice or within six months of the incident. The Monterey County Assessor's staff routinely accept applications up to six months after the occurrence from owners who have been sent a notice. The assessor feels that frequently after a disaster taxpayers are relocated to temporary shelters, their mail is often held by the post office, or they are preoccupied with matters more urgent than completing the application within the 30-day time frame

While we understand the assessor's reasons for allowing the additional time for filing a claim, we believe the county ordinance should be amended to permit this policy. The county assessor should request that the board of supervisors add language to the existing ordinance to allow up to six months from the occurrence of the disaster to file a claim, regardless of whether the owner has received a notice from the assessor's office. To ensure compliance with the time-frame requirement, assessor's staff should date all applications when they are mailed to the owner.

SUGGESTION 7: Screen fire department reports for eligible calamities.

The appraisal staff in the Monterey County Assessor's Office usually discover calamities through newspaper articles, taxpayer notification, or field investigation. Other valuable sources of discovery available to the staff are fire reports prepared by the various city and county fire departments.

Currently, few fire departments send reports of fires to the assessor's office. This no doubt allows some individual disasters to go unnoticed, since many property owners are not aware of the disaster relief provisions and thus may fail to contact the assessor.

Section 170(d) requires the assessor to provide the last known owner with an application for reassessment whenever it is determined that a property has suffered damage caused by misfortune or calamity within the preceding six months. Receiving periodic reports from fire departments, which usually provides an estimate of the dollar amount of the damage, would help the assessor contact property owners who may qualify for tax relief for their damaged properties. In addition, the incident reports could be useful in detecting fires deliberately set by the property owner which would disqualify the property for relief. We

therefore suggest that the assessor's staff obtain and screen fire department reports for eligible calamities.

The benefit would be to insure that Monterey County property owners would receive the tax relief for which they may be eligible.

SUGGESTION 8: Use correct forms for application for disaster relief.

Section 170(a) provides tax relief for owners of properties "...damaged or destroyed without his or her fault..." The Monterey County Assessor has two slightly different forms that are sent to owners of property damaged by disaster. The forms are apparently used interchangeably even though one of the forms does not conform to Section 170(a) of the Revenue and Taxation Code. This particular form does not require that the applicant certify that the damage occurred through no fault of the applicant. We suggest that these incorrect forms be destroyed and the correct ones used.

B. ROLL CHANGES

The Revenue and Taxation Code codifies the legal authority for assessment roll changes. Specific sections of the Revenue and Taxation Code apply to escapes, and overassessments. Our review of the Monterey County Assessor's Office included records of approximately 60 parcels that were subject to roll changes. We found no irregularities in the assessor's procedures and assessment practices. Our review showed that the reasons for making roll changes were adequately documented.

Board Order Changes to Tax Roll worksheets are filled out by real and personal property appraisers. Worksheets completed by the appraisers are signed by their supervisor and given to an administrative secretary for processing. The administrative secretary is responsible for validating data on worksheets as to assessee's name, address, assessor's parcel number, and cross checking roll values with tax bills for correctness.

The worksheet for the "Order of Cancellation of Assessment of Property Acquired for Public Use" is generated by the transfer unit and submitted to the secretary to fill out the assessment number, tax-rate areas, assessee name and reason for correction. The completed worksheet is then given to data entry for posting.

After all value increases due to Board Order Corrections are established, assesses are notified by mail for the amounts and reasons for the increases. The assesses are given 10 days to respond if they wish to question the proposed assessment. Roll corrections are made upon discovery of in-house errors and also are triggered by taxpayer's successful application for change in assessment (filing dates between July 2 and September 15).

C. SUPPLEMENTAL ROLL ASSESSMENTS

Section 75.18 of Article 2.5 of the Revenue and Taxation Code states that on the following lien date an inflation factor must be applied to the new base year value if a change of ownership or new construction event occurs during the period of March 1 through June 30. Some assessments jurisdictions throughout the state have failed to apply the inflation factor for such an event.

We reviewed several properties in Monterey County that had both sales and new construction activity occurring during the window period of March 1 through June 30. In every instance, the assessor's staff used proper procedures when adjusting these properties for the inflation factor index.

THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the Board's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the Board's County Property Tax Division (CPTD) on a five-year cycle and described as follows:

- (1) A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
- (2) These assessments are stratified into three value strata, identified, and placed into one of five assessment categories, as follows:
 - a. Base year properties -- those properties the county assessor has not reappraised for either an ownership change or new construction since the previous CPTD assessment sampling.
 - b. Transferred properties -- those properties where a change in ownership was the most recent assessment activity since the previous CPTD assessment sampling.
 - c. New construction -- those properties where the most recent assessment activity was new construction added since the previous CPTD assessment sampling.

- d. Non-Proposition 13 properties -- those properties not subject to the value restrictions of Article XIII A.
 - e. Unsecured properties -- those properties on the unsecured roll.
- (3) From the assessment universe in each of these fifteen (five assessment types times three value strata) categories, a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. (A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values.) Because a separate sample is drawn from each of these assessment types and value categories, the sample from each category is not in the same proportion to the number of assessments in every category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each category is multiplied by the ratio of the number of assessments in the particular category to the number of sample items selected from the category. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
- (4) The field investigation objectives are somewhat different in each category, for example:
- a. Base year properties -- for those properties not reappraised since the previous CPTD assessment sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
 - b. Transferred properties -- for those properties where a change in ownership was the most recent assessment activity since the previous CPTD assessment sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's

new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?

- c. New construction -- for those properties where the most recent assessment activity was new construction added since the previous CPTD assessment sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
 - d. Non-Prop 13 properties -- for properties not covered by the value restrictions of Article XIII A, do we concur with the amount enrolled?
 - e. Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
- (5) The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
 - (6) The results of the sample are then expanded as described in (3) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

One of the primary functions of the assessment practices survey team is to investigate areas of differences disclosed by the sampling survey data, determine the cause and significance of the differences, and recommend changes in procedures that will reduce or eliminate the problem area whenever the changes are cost effective or are required by legal mandate. Consequently, individual sample item value differences are frequently separated into segments when more than one problem is identified, and the results expanded and summarized according to the causes of the differences. Much of the support for the County Property Tax Division's recommendations in the form of fiscal and numerical impact is drawn from the expanded sample data, and statistics relating to specific problems have been incorporated in the text of this report.

Emphasis is placed on factors directly under the county assessor's control. Differences due to factors largely beyond the county assessor's control, such as (1) conflicting legal advice, (2) construction performed without building permits, (3) unrecorded transfer documents, (4) assessment appeals board decisions, and (5) factors requiring legislative solution are specifically identified in the text when these problems are reflected in the statistics.

ASSESSOR'S

RESPONSE

TO

BOARD'S

RECOMMENDATIONS

MONTEREY COUNTY

OFFICE OF THE ASSESSOR

(408) 755-5035 - P.O. BOX 570 - COURTHOUSE - SALINAS, CALIFORNIA 93902
(MONTEREY PENINSULA RESIDENTS MAY DIAL 647-7719)

BRUCE A. REEVES
ASSESSOR



April 24, 1997

Richard C. Johnson, Chief
Assessment Standards Division
Property Taxes Department
State Board of Equalization
P O Box 942879
Sacramento, CA 94279-0064

RECEIVED
APR 29 1997

Policy, Planning & Standards Div.
State Board of Equalization

Dear Mr. Johnson:

The enclosed five pages comprise my response as required by Government Code Section 15645 to the State Board of Equalization's recently completed periodic Assessment Practices Survey. Please publish this letter and the enclosed pages with your survey report.

Your observation: "During the research for this project, we found that the major aspects of the Monterey County Assessor's assessment program function very well"; was gratifying. Our success is the result of the conscientious effort made by each member of our highly experienced staff.

I wish to commend and thank you and your staff for the professional manner in which the survey was conducted. We appreciate and will benefit from the shared knowledge and experience.

Our responses are governed in part by the availability of resources with priority given to recommendations involving fairness to the taxpayer and those which are cost effective.

Yours very truly,

BRUCE A. REEVES
Assessor, Monterey County

BAR:sh

Encl.

Recommendation: 1. Apply the penalty for nonresponse by taxpayers to the change in ownership statement.

Discussion: We estimate that change in ownership data is received on 97% of all relevant real estate transactions occurring in Monterey County. This is accomplished through the Preliminary Change Of Ownership Report (PCOR) which is required to be filed at the time a transfer document is recorded and the Change In Ownership Statement sent by the Assessor in the few instances where no PCOR is filed. Rudimentary sales data (price/financing) can usually be gleaned on the remaining 3% of transactions from documentary transfer tax and other data available in the recorder's office.

When staff was available, we religiously applied the penalty for nonresponse even though that penalty was almost always forgiven through the abatement process as prescribed by law.

Response: We are in agreement with this recommendation which will be implemented when staff/time become available. Due to limited resources the implementation of this recommendation can not be a high priority "item".

Recommendation: 2. Develop and implement a written policy for making cash equivalent adjustments.

Discussion: As stated, cash equivalent adjustments are made by our appraisal staff when necessary. Assessor's Handbook Section 510 F, Cash Equivalent Analysis, provides the basis for such adjustments.

Response: As recommended, we will develop and implement a written policy for making cash equivalent adjustments. However, Assessors' Handbook Section 510 F, Cash Equivalent Analysis, will remain our primary reference.

Recommendation: 3. Allow the Megabyte computer system to forward all supplemental tax bills to the county auditor's office.

Discussion: The vast majority of supplemental assessments less than \$1,000 would result in a tax bill of less than ten dollars. The Monterey County Tax Collector does not issue supplemental tax bills of less than ten dollars.

Response: As recommended, we will no longer cancel supplemental assessments of less than \$1,000 (taxable value).

Recommendation: 4. Properly classify tenant improvements on unsecured accounts.

Discussion: Tenant improvements on unsecured accounts are appraised in the same manner as fixtures but properly classified as improvements on unsecured tax bills. This is a twenty-five (plus) year practice which is founded on our observation that such leasehold improvements in Monterey County tend to be transitory in nature.

Response: With all due respect, we do not plan to implement this recommendation in the foreseeable future.

Recommendation: 5. Annually assess all properties at the lower of current market value or factored base year value.

Discussion: Commencing in 1991, the beginning of Monterey County's downturn in real estate activity, and each year thereafter we have analyzed both internal and external market data to determine value trends. Through the 1996 lien date, we concluded that the market was generally flat with moderate declines in certain confined areas.

For the 1997 lien date staff reviewed the assessments of a significant number of properties the values of which are now under pressure due to the abundance of new housing stock.

Response: We will continue to annually review market data pertaining to the assessments on parcels for which annual factoring has been suspended. If our analysis indicates a change in market trend, their values will be adjusted accordingly. We will continue to review assessments in areas where declines in value have occurred.

Recommendation: 6. Assess all possessory interests at the Fairgrounds

Discussion: None

Response: Time and staff permitting, all interim uses at the Fairgrounds will be reviewed and evaluated to determine whether they warrant assessment. We anticipate that the majority will not.

Recommendation: 7. Treat fixed irrigation pumps, fixed booster pumps, and in-ground irrigation improvements as elements of improvement value.

Discussion: Board staff is correct in their observation, staff limitations and the issue of cost effectiveness do preclude the implementation of this recommendation. The consensus reached during discussions with our senior staff regarding implementation of the "alternative approach" is that the dual system would create confusion both internally and among other users of the property tax systems.

Response: We do not plan to implement this recommendation.

Recommendation: 8. Revise mineral rights assessments: (1) apply Property Tax Rule 469 to all mineral rights assessments; and (2) include essential information in the mineral property appraisal files.

Discussion: None

Response: This recommendation is being implemented. The Supervising Appraiser (real property) has assumed responsibility for the assessment of these parcels. He has already attended one seminar covering mining assessments.

Recommendation: 9. Ensure that property statements are closely screened for proper signatures. Reject those that do not meet regulatory requirements.

Discussion: This simple sounding recommendation results in a catch 22 situation. In reality, many business property statements are received at the eleventh hour, i.e., just prior to the date upon which the roll must be produced. In these cases there is insufficient time to audit the signature, return the statement, receive a replacement, and then enroll the assessment. In addition we simply do not have the resources to annually verify the signature on each of our 12,700 business accounts.

Response: The Business Division Chief has been directed to personally verify proper signature authority for all assessments involving business personal property and trade fixtures with a combined taxable value exceeding one million dollars. In cases where improper signatures are identified he will follow up to insure that the statement is executed by a proper signer in future years.

Recommendation: 10. When valuing machinery and equipment, use replacement cost factors that relate to the specific property being appraised.

Discussion: The use of the arithmetic average is deeply imbedded in our system (20 plus years) and is not peculiar to Monterey County. However, the recommendation is technically correct and appropriate.

Response: We plan to implement this recommendation.